

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

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FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

AMCONSUL CURACAO

AMEMBASSY NASSAU

AMEMBASSY PORT OF SPAIN

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E.O. 11652:

TAGS: ENRG, US

SUBJECT: FEA MODIFICATION OF ENTITLEMENTS PROGRAM

1. ON MARCH 29 THE FEDERAL ENERGY ADMINISTRATION TOOK ACTION DESIGNED TO INCREASE COMPANY COMPETITION IN THE EAST COAST RESIDUAL FUEL OIL MARKET. FEA ANNOUNCED:

A. THE REVISION OF THE OLD OIL ENTITLEMENTS PROGRAM TO REMOVE COMPETITIVE IMBALANCES IN THE EAST COAST RESIDUAL FUEL OIL MARKET.

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B. THE SUBMISSION TO CONGRESS OF AN AMENDMENT TO

REMOVE PRICE AND ALLOCATION CONTROLS FROM RESIDUAL FUEL OIL EFFECTIVE JUNE 1, 1976.

2. THESE ACTIONS WERE TAKEN TO ENSURE THE VIABILITY OF REFINERS AND IMPORTERS SUPPLYING RESIDUAL FUEL OIL TO THE EAST COAST, TO RESTORE EFFECTIVE COMPETITION AND TO SEEK TO ELIMINATE A COMPLEX REGULATORY SYSTEM THAT WAS CREATED DURING THE EMBARGO AND IS NO LONGER PRODUCTIVE.

3. THE PRINCIPAL ELEMENTS OF FEA'S CHANGE IN THE ENTITLEMENTS PROGRAM ARE TO REDUCE ENTITLEMENTS FOR

DOMESTIC REFINERS SELLING RESIDUAL FUEL OIL INTO THE EAST COAST MARKET AND TO PROVIDE PARTIAL ENTITLEMENTS FOR IMPORTERS SELLING RESIDUAL OIL INTO THAT REGION.

4. FEA'S ENTITLEMENTS PROGRAM WAS DESIGNED TO PRESERVE COMPETITION AMONG DOMESTIC REFINERS BY REDUCING THE ADVANTAGE ENJOYED BY REFINERS WITH ACCESS TO DOMESTIC CRUDE OIL CONTROLLED AT LOWER TIER PRICES (ABOUT \$5.25 PER BARREL). HOWEVER, DUE TO THE UNIQUE STRUCTURE OF THE EAST COAST RESIDUAL FUEL OIL MARKET AND ITS HISTORIC DEPENDENCE ON OFFSHORE REFINERIES, THE ENTITLEMENTS PROGRAM PRODUCED MARKET DISTORTIONS AND THREATENED THE VIABILITY OF SOME CARIBBEAN REFINERS AS WELL AS THE INDEPENDENT MARKETERS AND CONSUMERS SUPPLIED BY THESE AND OTHER FOREIGN REFINERIES.

5. TO RESOLVE THESE PROBLEMS, THE ACTION TAKEN BY FEA:

A. REDUCES BY 50 PERCENT THE ENTITLEMENT VALUE FOR RESIDUAL FUEL OIL PRODUCED BY DOMESTIC REFINERS AND MARKETED ALONG THE EAST COAST;

B. PROVIDES A 30 PERCENT PRODUCT ENTITLEMENT DIRECTLY TO THE IMPORTERS OF RESIDUAL FUEL OIL INTO THE EAST COAST (WITH THE EXCEPTION OF THOSE IMPORTING RESIDUAL FUEL OIL FROM THE VIRGIN ISLANDS);

C. EXEMPTS FROM THE REDUCTION IN ENTITLEMENTS THE LIMITED OFFICIAL USE

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FIRST 5,000 BARRELS PER DAY OF RESIDUAL FUEL OIL MARKETED IN THE BUREAU OF MINES EAST COAST REFINING DISTRICT.

6. IN TERMS OF THE CARIBBEAN REFINERY SITUATION THE NET RESULT OF THE PROPOSED CHANGES WILL BE TO REDUCE THE HESS (VIRGIN ISLANDS) COMPETITIVE ADVANTAGE FROM AROUND \$3.00 PER BARREL IN MARCH TO AROUND \$.40 - \$.60 A

BARREL HEREAFTER.

7. FEA CAUTIONS, HOWEVER, THAT DESPITE THE MOVE TO INCREASE COMPETITION IN RESIDUAL FUEL OIL, THE MARKET HAS CHANGED SO THAT IT IS UNLIKELY THAT THE CARIBBEAN REFINERS WILL REGAIN FULLY THE MARKET THEY LOST OVER THE PAST TWO YEARS. INDUSTRIAL AND RESIDENTIAL CONSUMPTION OF ENERGY IS DOWN IN THE NORTHEAST, AND RESIDUAL FUEL OIL HAS TO SOME EXTENT BEEN PRICED OUT OF THE MARKET. KISSINGER

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